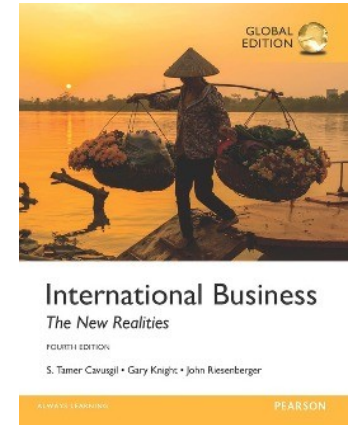


Part 1

Foundation Concepts

Chapter

1



Introduction: What is International Business?

International Business: The New Realities, 4th Edition, Global Edition

by

Cavusgil, Knight, and Riesenberger

Learning Objectives

- 1.1 Describe the key concepts in international business.
- 1.2 Understand how international business differs from domestic business.
- 1.3 Identify major participants in international business.
- 1.4 Describe why firms internationalize.
- 1.5 Appreciate why you should study international business.

The Nature of International Business

- All value-adding activities – including sourcing, manufacturing, and marketing – can be performed in international locations.
- International trade can involve products, services, capital, technology, know-how, and labor.
- Firms internationalize through various entry strategies, such as exporting and foreign direct investment

Dimensions of International Business



Key Concepts in International Business

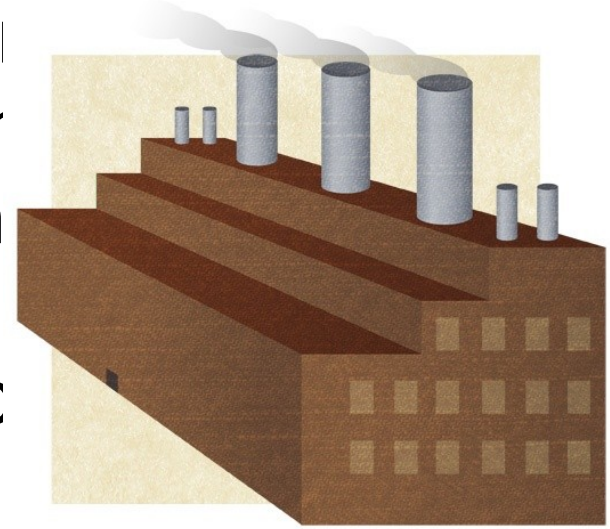
- **International business:** Performance of trade and investment activities by firms across national borders.
- **Globalization of markets:** Ongoing economic integration and growing interdependency of countries worldwide.

Key Concepts (cont'd)

- **International trade:** Exchange of products and services across national borders; typically through exporting and importing.
- **Exporting:** Sale of products or services to customers located abroad, from a base in the home country or a third country. Boeing and Airbus export billions in commercial aircraft every year.
- **Importing or global sourcing:** Procurement of products or services from suppliers located abroad for consumption in the home country or a third country. Toyota imports many parts

Key Concepts (cont'd)

International investment: Transfer of assets to another country or the acquisition of assets in that country. Also known as 'foreign direct investment' (FDI), we will focus on this type of investment.



International

investment: Passive ownership of foreign assets such as

order to generate financial

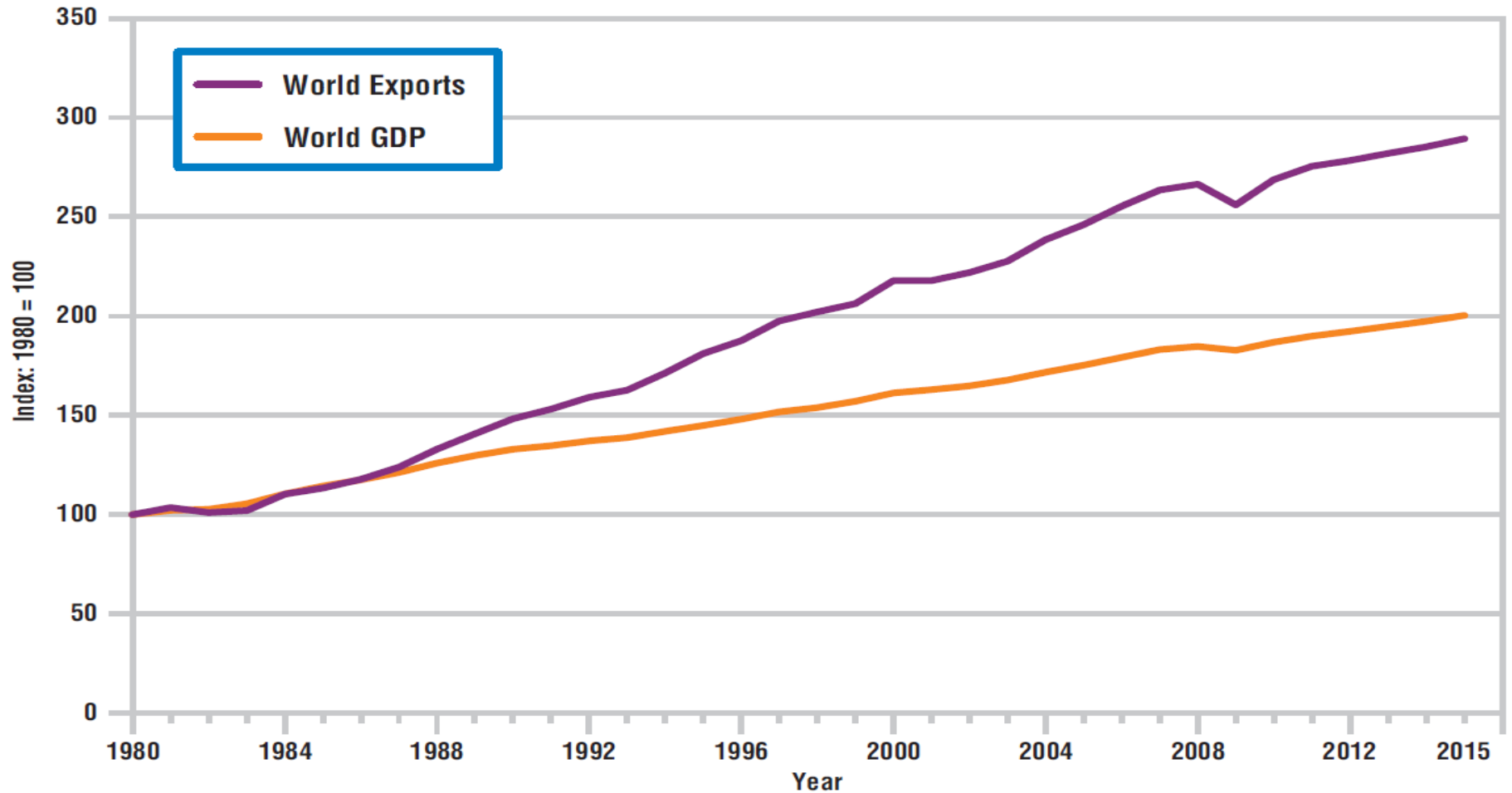
Globalization of Markets

- *Unprecedented growth of international trade.* In 1960, global trade was \$100 billion per year. Today, world exports amount to some \$18 trillion annually!
- *Trade between nations, accompanied by substantial flows of capital, technology, and knowledge.*
- *Development of sophisticated global financial systems and mechanisms* that facilitate the cross-border flow of products, money, technology, and knowledge.
- *Greater collaboration among nations* through multilateral regulatory agencies such as the World Trade Organization (WTO: www.wto.org)

The 'Flows' of International Business

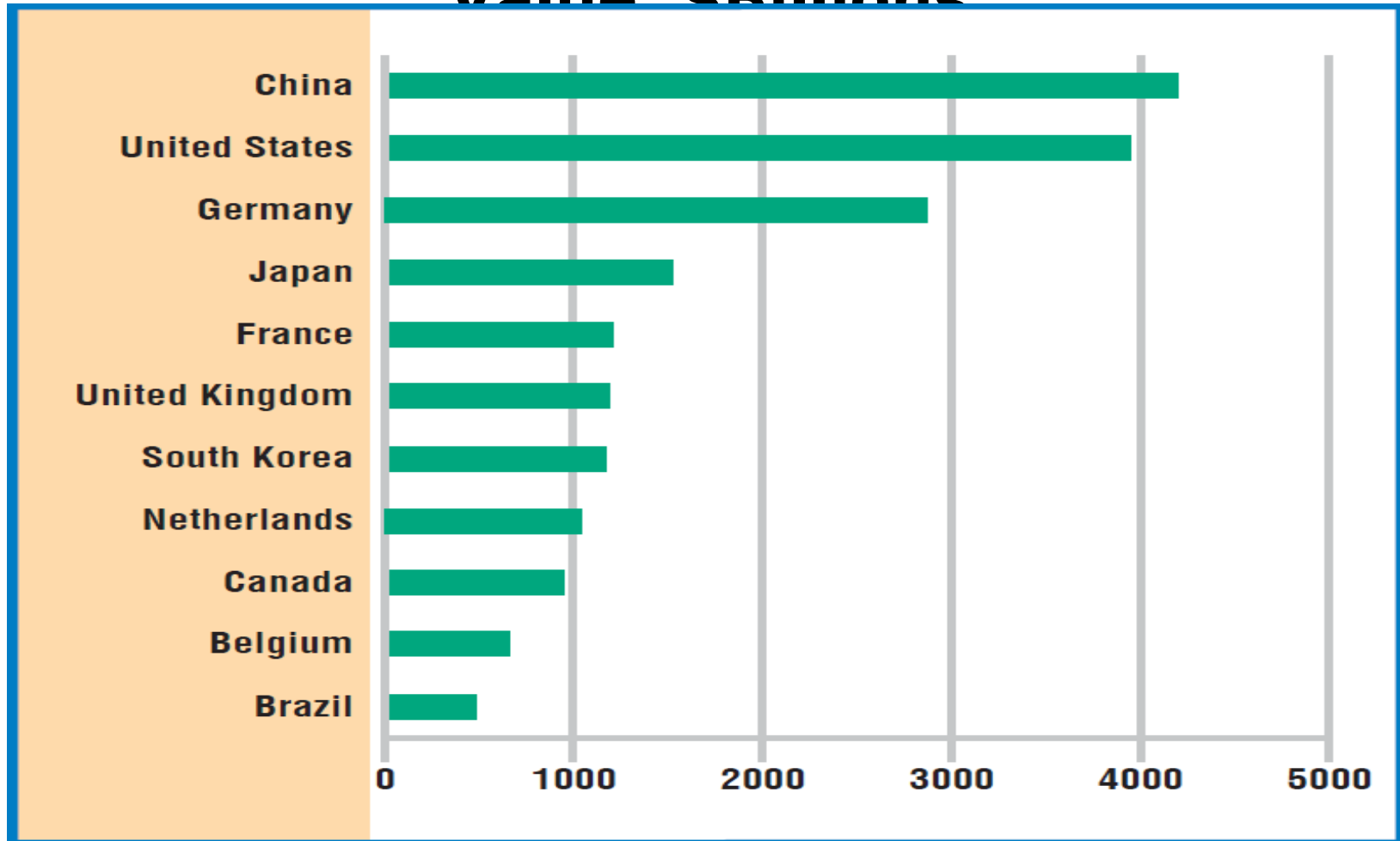


World Trade Is Growing Faster than GDP



Source: Based on data from the International Monetary Fund, *World Economic Outlook Database April 2015*, <http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx>.

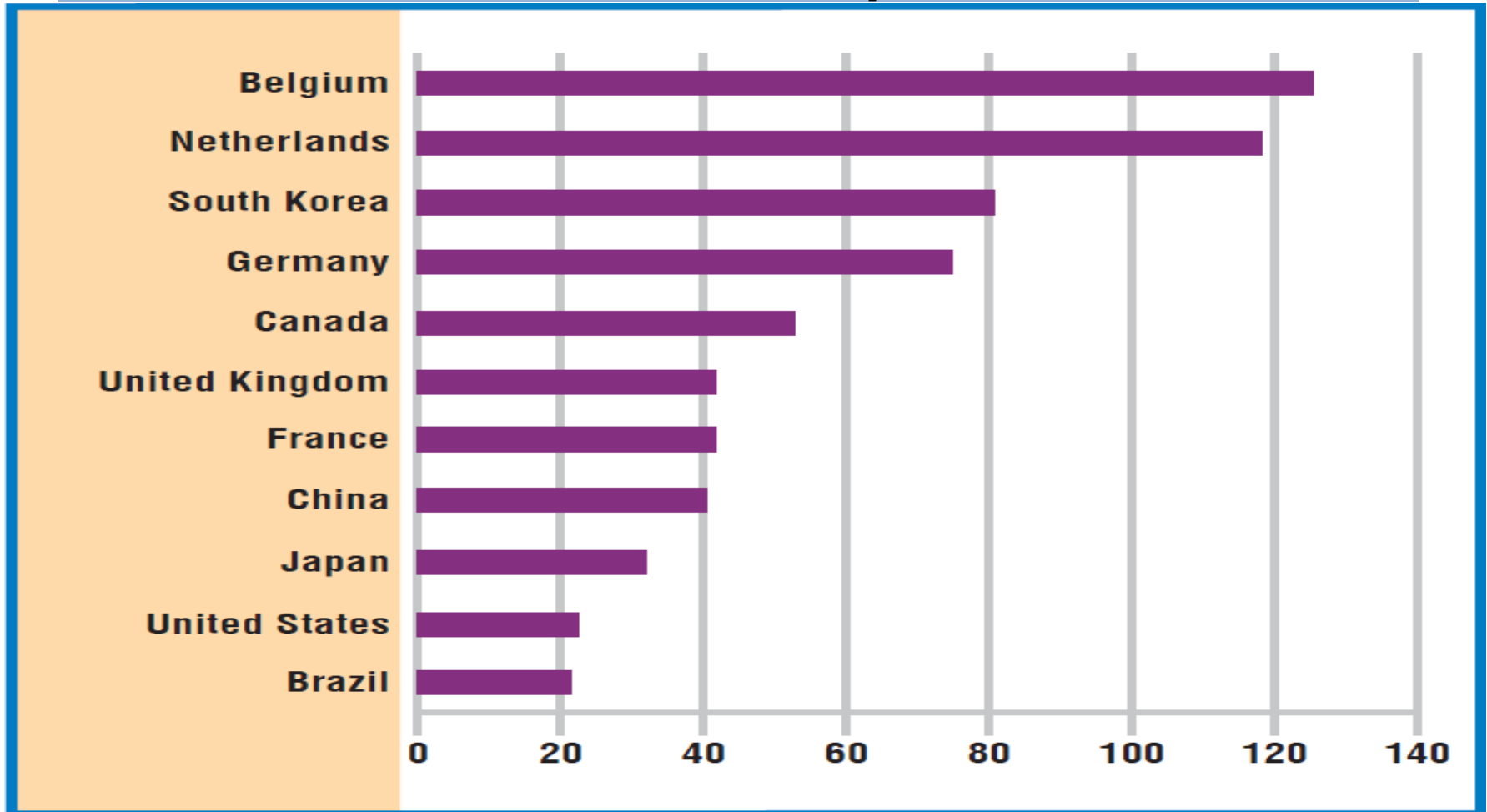
Leading Countries in International Merchandise Trade, by Total Annual Value, \$Billions



(a) Total annual value of products trade (exports + imports) in billions of U.S. dollars

Sources: Based on data from the World Bank, *World Development Indicators*, World Bank, Washington, DC, 2015 (www.worldbank.org); World Trade Organization, *Statistics Database*, Geneva: World Trade Organization (2015), www.wto.org; UNCTAD, *World Investment Report*, New York: United Nations (2015), www.unctad.org.

International Merchandise Trade, Total Value

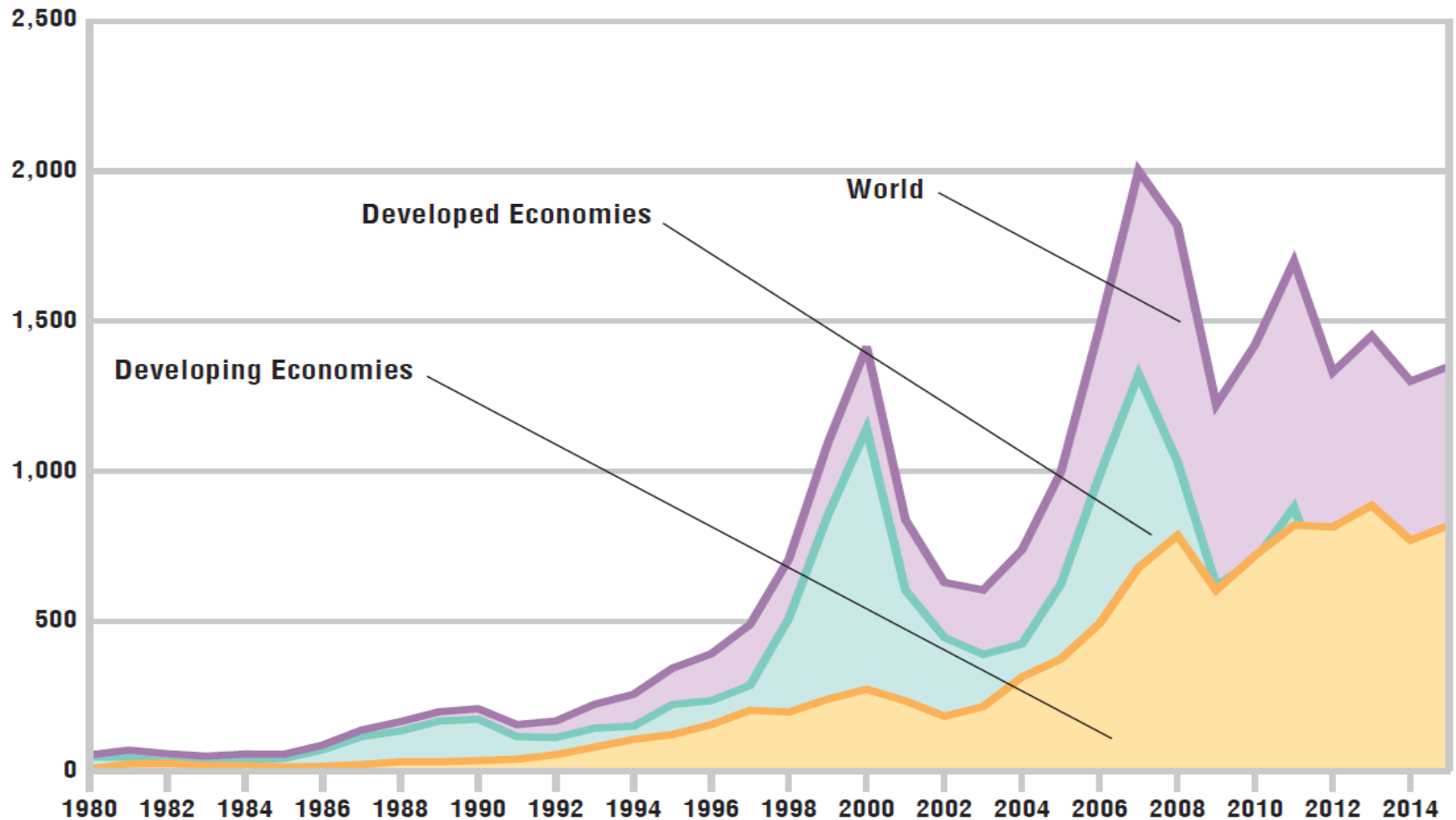


(b) Total annual value of products trade (exports + imports) as a percentage of nation's GDP

Sources: Based on data from the World Bank, *World Development Indicators*, World Bank, Washington, DC, 2015 (www.worldbank.org); World Trade Organization, *Statistics Database*, Geneva: World Trade Organization (2015), www.wto.org; UNCTAD, *World Investment Report*, New York: United Nations (2015), www.unctad.org.

FDI Inflows into World Regions

(in Billions of U.S. Dollars per Year)



Sources: UNCTAD, *UNCTADSTAT Database*, Inward FDI Flows, Annual 2015; UNCTAD, *Global Investment Trends Monitor No. 18*, January 29, 2015; UNCTAD, *World Investment Prospects Survey 2013-2015*, 2013-14

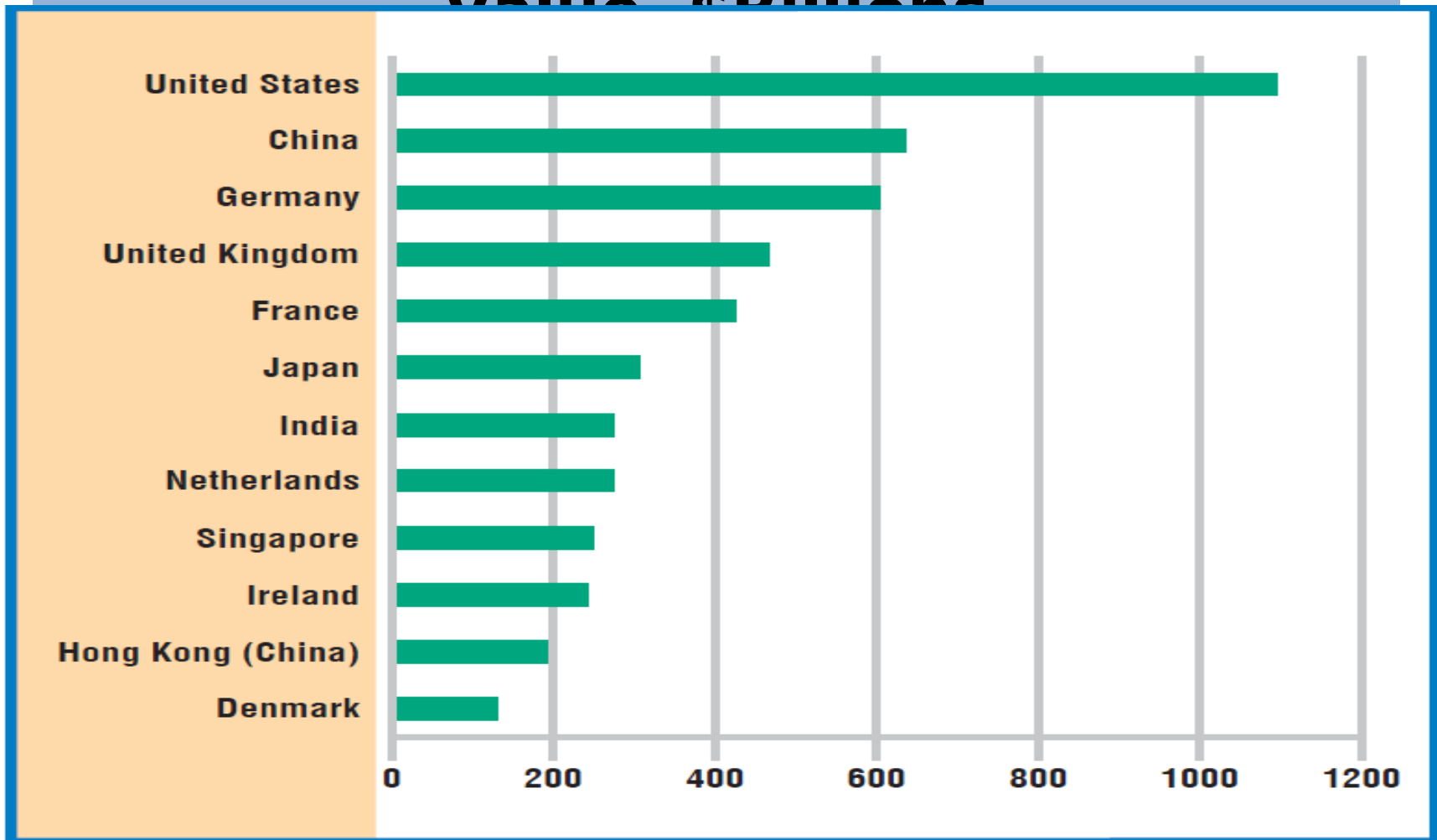
Service Industries that are Rapidly Internationalizing

<i>Industry</i>	<i>Representative Activities</i>	<i>Representative Companies</i>
Architectural, construction, and engineering	Construction, power utilities, design, engineering services, for airports, hospitals, dams	ABB, Bechtel Group, Halliburton, Kajima, Philip Holzman, Skanska AB
Banking, finance, and insurance	Banks, insurance, risk evaluation, management	Bank of America, CIGNA, Barclays, HSBC, Ernst & Young
Education, training, and publishing	Management training, technical training, language training	Berlitz, Kumon Math & Reading Centers, NOVA, Pearson, Elsevier
Entertainment	Movies, recorded music, Internet-based entertainment	Time Warner, Sony, Virgin, MGM
Information services	E-commerce, e-mail, funds transfer, data interchange, data processing, computer services	Infosys, EDI, Hitachi, Qualcomm, Cisco
Professional business services	Accounting, advertising, legal, management consulting	Leo Burnett, EYLaw, McKinsey, A.T. Kearney, Booz Allen Hamilton
Transportation	Aviation, ocean shipping, railroads, trucking, airports	Maersk, Santa Fe, Port Authority of New Jersey, SNCF (French railroads)
Travel and tourism	Transportation, lodging, food and beverage, aircraft travel, ocean carriers, railways	Carlson Wagonlit, Marriott, British Airways



Source: Based on International Trade Administration, Washington, DC: U.S. Department of Commerce.

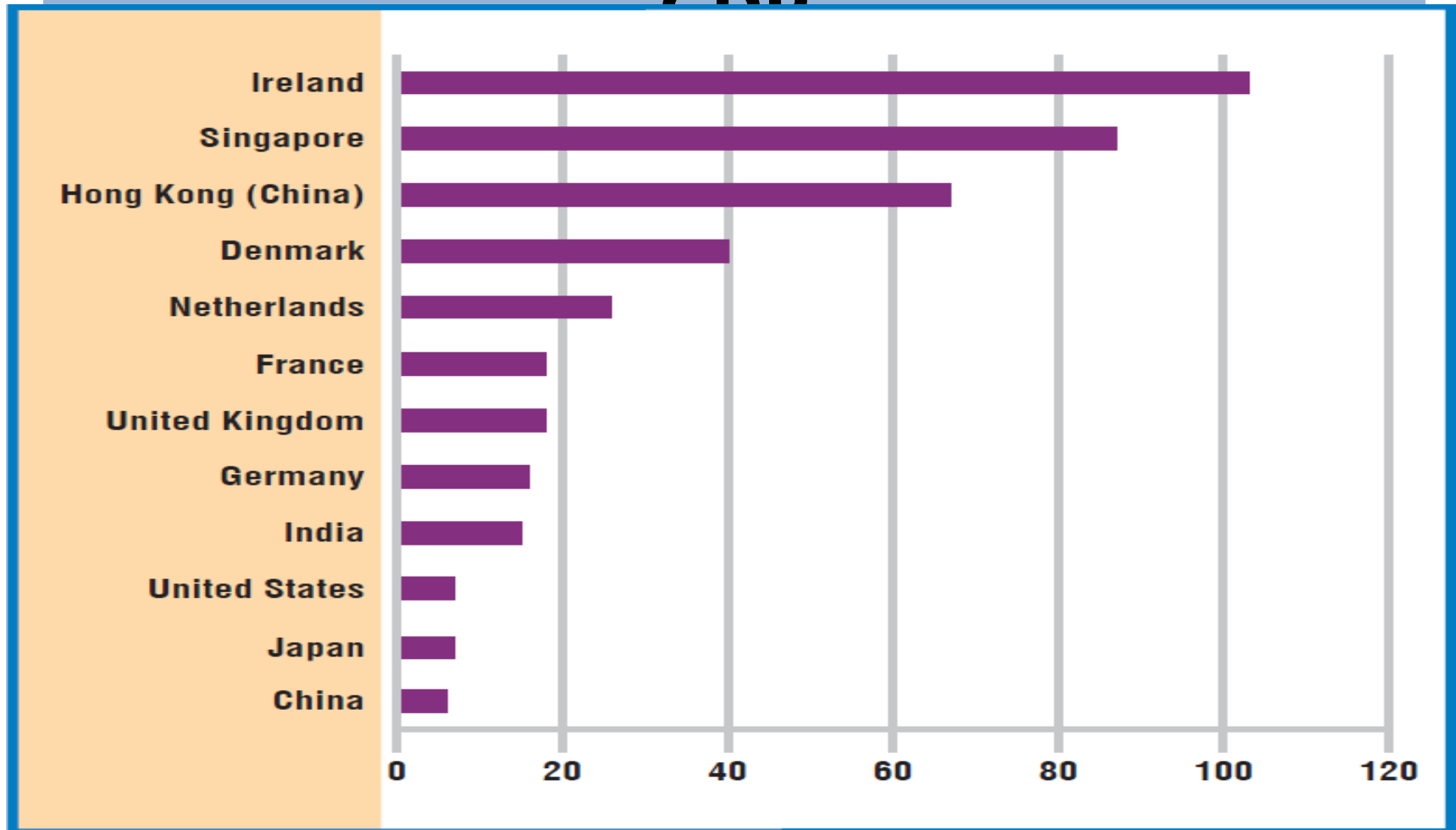
Leading Countries in International Services Trade, by Total Annual Value, \$Billions



(a) Total annual value of services trade (exports + imports) in billions of U.S. dollars

Sources: Based on data from the World Bank, *World Development Indicators*, Washington, DC: World Bank (2015), www.worldbank.org; World Trade Organization, *Statistics Database*, Geneva: World Trade Organization (2015), www.wto.org; UNCTAD, *World Investment Report*, New York United Nations (2015), www.unctad.org.

Leading Countries in International Services Trade, Total Value as a % of GDP



(b) Total annual value of services trade (exports + imports) as a percentage of nation's GDP

Sources: Based on data from the World Bank, *World Development Indicators*, Washington, DC: World Bank (2015),

www.worldbank.org; World Trade Organization, *Statistics Database*, Geneva: World Trade Organization

(2015), www.wto.org; UNCTAD, *World Investment Report*, New York United Nations (2015),

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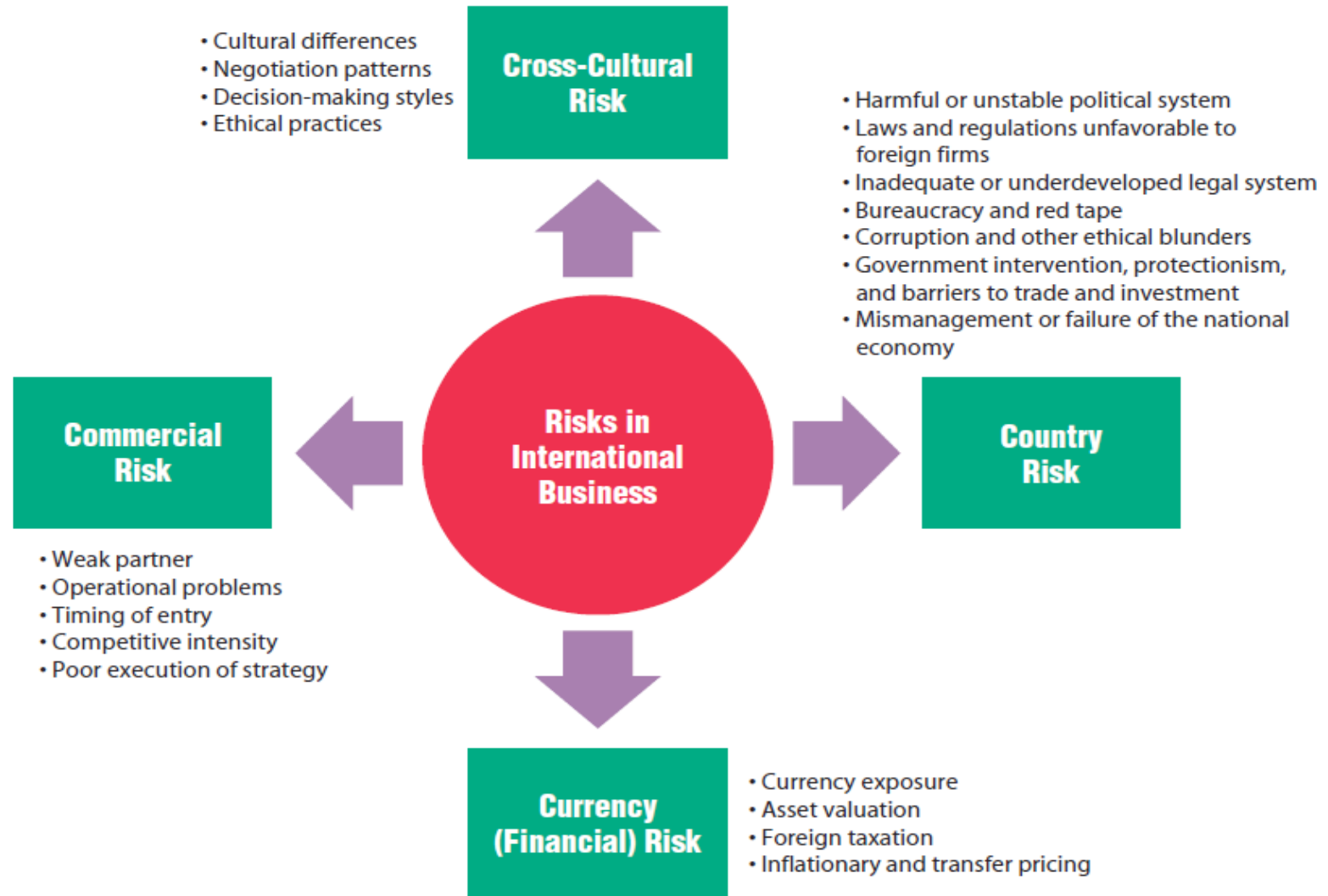
International and Domestic Business: How They Differ

1. International business....

- is conducted across national borders.
- uses distinctive business methods.
- is in contact with countries that differ in terms of culture, language, political system, legal system, economic situation, infrastructure, and other factors.

2. Stated differently when they venture abroad

The Four Risks of International Business



Cross-Cultural Risk

- **Cultural Differences.** Risk arising from differences in language, lifestyle, attitudes, customs, and religion, where a cultural miscommunication jeopardizes a culturally-valued mindset or behavior.
- **Negotiation Patterns.** Negotiations are required in many types of business transactions. e.g., Where Mexicans are friendly and emphasize social relations; Americans are assertive and get down to business quickly.



Cross-Cultural Risk (cont'd)

- **Decision-Making Styles.** Managers make decisions continually on the operations and future direction of the firm. For example, Japanese take considerable time to make important decisions. Canadians tend to be decisive, and “shoot from the hip”.
- **Ethical Practices.** Standards of right and wrong vary considerably around the world. For example, bribery is relatively accepted in some countries in Africa, but is generally unacceptable in Sweden.

Ethical Connections

- In the fashion industry, hundreds of factory workers die annually from dangerous working conditions.
- In the production of faded denim jeans, thousands of garment workers develop deadly lung diseases from constant exposure to crystalline silica used to sandblast jeans to give them the worn, vintage look.
- Illegal in Europe and the United States, such production methods are still widely used in low-income countries, from where the jeans are then distributed to affluent consumers worldwide

Country Risk (Political Risk)

- Government intervention, protectionism, and barriers to trade and investment.
- Bureaucracy, red tape, administrative delays, corruption.
- Lack of legal safeguards and property rights.
- Legislation unfavorable to foreign firms.
- Economic failures and mismanagement

Examples

- The U.S. imposes tariffs on imports of sugar and other agricultural products.
- Doing business in Russia often requires paying bribes to government officials.
- Venezuela's government has interfered much with the operations of foreign firms.
- Argentina has suffered high inflation and other economic turmoil

Currency Risk (Financial Risk)

- **Currency exposure.** General risk of unfavorable exchange rate fluctuations.
- **Asset valuation.** Risk that exchange rate fluctuations will adversely affect the value of the firm's assets and liabilities.
- **Foreign taxation.** Income, sales, and other taxes vary widely worldwide, with significant impact on company performance and profitability.
- **Inflation.** High inflation, common to many countries, complicates business planning, and the pricing of inputs and finished goods.

Examples

- The Japanese yen has fluctuated a lot since 2000.
- The U.S. has relatively high corporate income taxes.
- Brazil and Turkey have experienced very high inflation.

Commercial Risk

- **Weak partner**
- **Operational problem**
- **Timing of entry**
- **Competitive intens**
- **Poor execution of strategy**



General commercial risks such as these
lead to

sub-optimal formulation and
implementation of

the firm's international value chain

The Four Risks of IB: Conclusion

- Always present but manageable.
- Managers need to understand, anticipate, and take proactive action to reduce their effects.
- Some risks are extremely challenging.

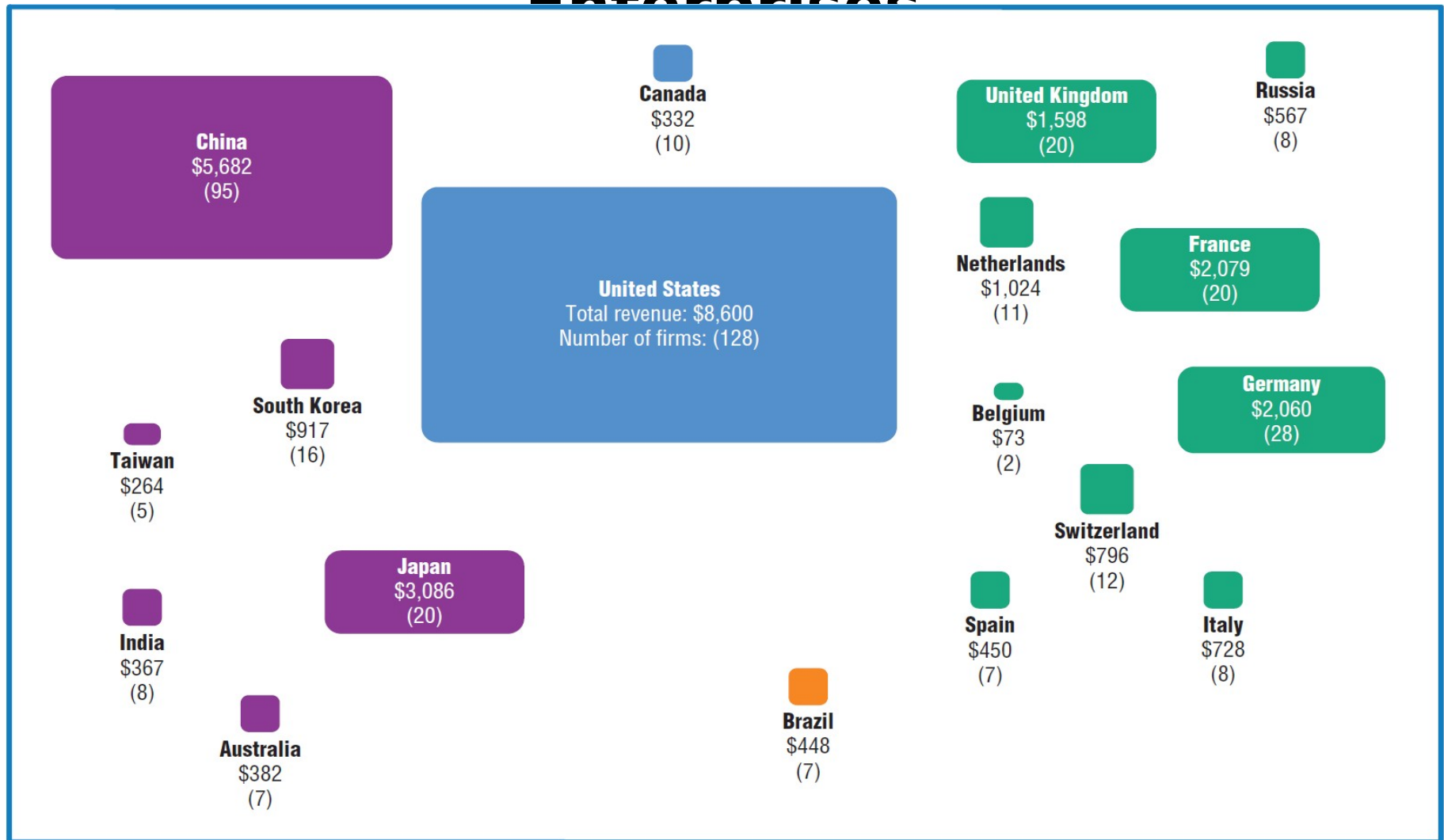
Example

The recent global financial crisis generated many commercial, currency, and country risks, affecting banks and other firms worldwide. This leads to steep declines in national stock markets and normal business activity.

Who Participates in International Business?

- **Multinational enterprise (MNE):** A large company with substantial resources that performs various business activities through a network of subsidiaries and affiliates located in multiple countries. e.g., Caterpillar, Samsung, Unilever, Vodafone, Disney.
- **Small and medium-sized enterprise (SME):** Typically, companies with 500 or fewer employees, comprising over 90% of all firms in most countries. SMEs increasingly engage in international business.
- **Born global firm:** A young, entrepreneurial SME that undertakes substantial international business at or near its founding.

Geographic Locations of the 500 Largest Multinational Enterprises



Sources: Scott Decarlo, "Global 500: A New World Order," *Fortune*, February 1, 2015, pp. 18-19; *Fortune*, "Global 500," Special Section, July 21, 2014, pp. F1-F8.

Who Participates in International Business? (cont'd)

- **Non-governmental organizations:** Many of these non-profit organizations conduct cross-border activities. They pursue special causes and serve as advocates for social issues, education, politics, and research

Examples

- *The Bill and Melinda Gates Foundation* and the *British Wellcome Trust* both support health and educational initiatives.
- *CARE* is an international non-profit organization dedicated to reducing poverty.

Non-governmental organizations



Source: Maciej Dakowicz/Alamy

The British Wellcome Trust funds nongovernmental organizations (NGOs) and research initiatives to work in collaboration with private businesses to develop remedies for diseases in Africa and other less developed areas.

Why do Firms Participate in IB?

- ***Seek opportunities for growth through market diversification.*** e.g., Harley-Davidson, IKEA, H&M.
- ***Earn higher margins and profits.*** Often, foreign markets are more profitable.
- ***Gain new ideas about products, services, and business methods.*** e.g., GM refined its knowledge



Source: gyn9037/Shutterstock

Why do Firms Participate in IB?

(cont'd)

- ***Serve key customers that have relocated abroad.*** e.g., When Toyota launched its operations in Britain, many of its suppliers followed suit.
- ***Be closer to supply sources, benefit from global sourcing advantages, or gain flexibility in the sourcing of products.*** e.g., Apple sources parts and components from the best suppliers worldwide.

Why do Firms Participate in IB? (cont'd)

- ***Gain access to lower-cost or better-value factors of production.*** e.g., Sony does much manufacturing in China.
- ***Develop economies of scale in sourcing, production, marketing*** e.g., Airbus lowers its overall costs by sourcing manufacturing, and selling aircraft worldwide.



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Source: robeeco/Fotolia

Why do Firms Participate in IB?

(cont'd)

- ***Confront international competitors more effectively or thwart the growth of competition in the home market.*** Chinese appliance maker Haier established operations in the United States, partly to gain competitive knowledge about Whirlpool, its chief US rivals.
- ***Invest in a potentially rewarding relationship with a foreign partner.*** French computer firm Groupe Bull partnered with Toshiba in Japan to gain insights for developing information technology.

IB contributes to National Economic Well-being



Source: Tim Drape/Dorling Kindersley Limited

A popular shopping street in Beijing, China

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Why Study International Business?

- ✓ **Facilitator of the global economy and interconnectedness.** IB brings nations closer together.
- ✓ **Contributor to national economic well-being.** IB fuels economic growth and rising living standards.
- ✓ **A competitive advantage for the firm.** IB provides companies with many benefits, leading to profitability and competitive advantages.

Why Study International Business? (cont'd)

- ✓ **A competitive advantage for you.**

Working internationally offers a range of enlightening experiences, new knowledge, and other benefits that enhance careers....and it's exciting!

- ✓ **An opportunity for global corporate citizenship.** Firms must be ethical and socially responsible in their dealings because IB affects numerous constituents, often in unintended ways.

You Can Do It: Ashley Lumb

- Ashley is a real person, who got her undergraduate degree from a state university a few years ago. Read her profile in Chapter 1.
- Ashley's majors: Marketing and International business.
- Reasons for pursuing career in international business: Adventure, perspective, career growth, and the opportunity to learn foreign languages.
- Ashley's jobs since college:
Marketing Representative in Nice, France



You Can Do It: Ashley Lumb (cont'd)

Ashley's Success Factors

- Hard work and networking.
- Ashley made a strong effort to meet lots of people. She sent out many resumes, asked a lot of questions, and researched job markets that interested her.
- To keep afloat between assignments, she worked several “unglamorous” jobs.

Challenges

- Working abroad means stepping outside your comfort zone.
- May require following a career path that is nontraditional or not clearly defined .
- Language and culture barriers are ever present.